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INDUSTRY INSIGHTS

GLOBAL SOURCING

MULTISOURCING – A COMPARATIVE TO OUTSOURCING

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A WHITE PAPER SERIES

September 2006
Volume 1, Issue 2

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MULTISOURCING – A COMPARATIVE TO OUTSOURCING

Outsourcing has changed the manner in which businesses are conducted globally. With adoption of outsourcing as a key driver for business success, earlier drivers behind outsourcing like cost arbitrage, access to key talent etc have taken on a new twist. Today customer organizations are looking for sustainable relationships with provider organizations. This in turn has led to a transformation in the demand for capabilities that help a provider win deals. Today's customers are looking for a much wider variety of competencies that cannot be satisfied by one provider alone. Multisourcing therefore has become a more commonly accepted strategic direction that customer organizations are taking in their quest for sourcing relationships. This paper touches upon the contributors to Multisourcing, the opportunities and challenges that customer organizations need to know before adopting Multisourcing as a strategic solution.

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CMMI Maturity Level 5

ISO9001-2000
AJA 03/5863

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INTRODUCTION

The term *Services Globalization* has meant many things for many people, not always indicating concepts or thoughts in the same direction. Many have labeled this term as another *management buzzword* with a short shelf-life. Unfortunately for its critics however, the concept represented by this term has not only come to stay, but has exponentially changed the manner in which businesses are conducted globally.

Not delving too much into the history of outsourcing which is the principal strategy for global services, it is necessary to articulate its contribution to services globalization. As outsourcing needs expanded in terms of search for "sustainable" capabilities, such searches spilled over borders. While such spillover has created in what is today known as "offshore supplier landscape", corporations (predominantly from the USA) have expanded their leverage of offshore competencies from discrete to strategic. A shift in the services sourcing resulted in a shift in the nature of demands as well. While outsourcing and subsequently discrete global sourcing was undertaken to offset costs, now global sourcing is being driven by a strategic need to leverage competencies, sustain quality, improve processes, reduce time to market, and embrace new technologies faster. It is worthwhile noting that the objective driving demand has shifted from a "cost perspective" to a "benefits perspective".

One significant factor that has contributed to the growth of outsourcing and global sourcing industry is its inclusion into the agenda of top management and Boards in their strategic decision-making process. This shift of sourcing (procuring) services erstwhile being driven by Procurement divisions has added a new dimension to the entire nature of benefits that a company wishes to achieve when partnering with service providers. Concurrently, growth of offshore providers has thrust an increased pressure onto the large multinational provider firms like IBM, Accenture, EDS, and ACS etc to retain their customers. Boards and stakeholders are demanding more "value and sustenance" from their top management's efforts at running corporations. This in turn has translated into companies looking for "benefits" at "affordable costs" as the principal driver behind selecting service providers.

This paper shall address the concept of Multisourcing, and make appropriate comparisons with Outsourcing itself, while specifically focusing on the benefits and challenges it poses for corporations adopting a "benefits perspective" as the success criteria for their sourcing goals.

MULTISOURCING DEFINED

Outsourcing is a *long-term, results-oriented* partnership between a buyer and a provider of services, usually applied to a business function, but may also encompass a single activity or a portfolio of services. *Long Term* doesn't apply to longevity of contractual relationship; Rather refers to an organization's ability to "divest" itself from performing the activity/s itself. *Results-Oriented* clearly indicates responsibility and accountability allocation to the provider; at times including business risk and ownership as well.

The nature of engaging with multiple providers with a variety of service capabilities and delivery competencies is known as **Multisourcing**. As is evident, adoption of this approach calls for a more comprehensive alignment of goals, objectives, and expectations, while concurrently changing the very nature of vendor management principles traditionally adopted by corporations to oversee effective vendor performances.

WHAT DRIVES MULTISOURCING

Outsourcing calls for a one-on-one relationship between a buyer and a provider of services, under the aegis of a master contract defining all expectations clearly. Much has been written about outsourcing, its opportunities, its pitfalls, and the best practices that can be implemented to mitigate risks. However, Multisourcing brings to the table a completely transformed set of opportunities, while posing significantly critical challenges. A thorough review is required of the traditional manner in which outsourcing relationships have been judged, measured, monitored and managed. Having said that, it is important to first understand what drives Multisourcing. Following are a few objectives that corporations pursue when adopting Multisourcing.

LEVERAGE DISCRETE COMPETENCIES

Working with multiple providers gives an organization the ability to tap into a variegated set of service capabilities offered, without having to undertake a significant investment in internal reengineering effort. This is also driven by a need to embrace an "improvement-culture" through partnership with firms offering such capabilities. This objective, also known as adoption of the "best-in-breed" is giving rise to a completely new approach towards sourcing management and provider selection methodologies.

PROTECT LOSS OF BUSINESS KNOWLEDGE

Companies are divesting from traditional suppliers who have, at times, held a strangle-hold over companies resulting in full/ partial loss of knowledge of service processes. This is particularly important because companies - in the absence of internal knowledge of their service portfolios - are exposed to the adversities of competition especially during market downturns.

CONTRACT LONGEVITIES

Companies are keen on reducing their dependence on sole suppliers for longer periods of time driven by 10-15 year contract terms, thereby giving them the flexibility to align their products/ services much faster and in-line with end-customer demands.

ACCESS TO NEW MARKETS

Companies recognize the need for leveraging global locations and capabilities in a manner that complements core businesses, especially from a perspective of entering into new markets.

MULTISOURCING BEST PRACTICES

In the context of managing multiple providers, it is critically important for companies to adopt flexible approaches. Success with Multisourcing starts right at the beginning of strategic development. Commitment to the approach needs to be driven by top management with a direct link into the Board for strategic direction and course corrections as appropriate. It becomes extremely vital that companies adopt some best practices when dealing with multiple providers, across multiple geographies.

ALIGN SOURCING STRATEGIES

Complete commitment from top management, especially at the Executive level is crucial to ensure success with the entire spectrum of Multisourcing: *identification of competent providers to eventual governance of such relationships.* Sourcing strategies have to be appropriately customized to cater to specific capabilities, as opposed to a blanket RFP being floated out to a chosen few vendors, in the hope that each vendor would present their unique solutions and make it easier to determine who wins the deal and who doesn't.

Unfortunately in today's complex world of provider competencies it is becoming increasingly difficult to segregate and identify competencies that are unique to providers. Construct of separate goals and specific success criteria for each type of sourcing relationship is the pedestal on which successful Multisourcing plans rest.

ENFORCE CONTRACTUAL CLAUSES FLEXIBLY

More often than not, companies drive their sourcing relationships towards failure because of the rigidity with vendor management. This is principally due to a watertight internal vendor management process

that prescribes a homogeneous approach toward contractual enforcement with all external parties, regardless of the fact that goals of such relationships may be completely different from each other. A failure to see each partner as unique and different from the other is the principal cause for missed objectives and lost benefits.

MANAGE PROVIDER RELATIONSHIPS STRATEGICALLY

Most companies adopt multiple providers in order to reduce costs and also drive such services to becoming commoditized. While this works well, it is vital that companies develop and sustain exclusive relationships with all providers. Such relationship management results in improved communication, establishment and working toward shared goals, effective dispute resolution, proactive management of shared risks, and prudent cost management.

PREPARE FOR CONFLICTS

Avoidance of conflicts or lack of preparedness for conflicts amongst vendors can cause significant damages to the overall strategic direction and benefits envisaged from contacting with multiple vendors. It is projected that over 50% of all Multisourcing deals will fail to achieve desired benefits. Unfortunately, the principal cause for this failure is attributed to lack of readiness to deal with conflicts among providers. Providers will have to work together in such deals where there exist a few hand-offs and transfers of transactions or portions of work amongst themselves. In such instances, conflicts can arise for a variety of reasons. It is important that companies identify, and plan for such occurrences.

It is highly recommended that companies demand for identification of conflicts during their portfolio assessment (prior to actual sourcing itself), and develop mitigating plans or approaches. It is crucially important to recognize that not all conflicts will relate to independent styles of management amongst vendors, but could be a result of incompatible technologies being deployed, location issues, transition issues et al.

DEVELOP MASTER CONTRACTS TO INCLUDE STATEMENTS OF WORK

The success of large companies with Multisourcing is principally attributed to the adoption of a comprehensive and overarching master services contract, which clearly articulates goals, objectives, performance and relationship aspects that in turn would help define specific goals and performance measures for individual relationships. Setting expectations at two levels - corporate, and deal - would not only help provide strategic direction to various senior managers engaged in managing individual relationships, but also provide vital specific success criteria at a deal level to adhere to. In addition, a single master contract governing a variety of statements of work can eliminate significant legal cost-outlays involved in managing multiple contracts.

Ongoing management of such a contract becomes much easier, as refinements to plug loopholes or incorporate new modifications becomes all-pervasive across providers.
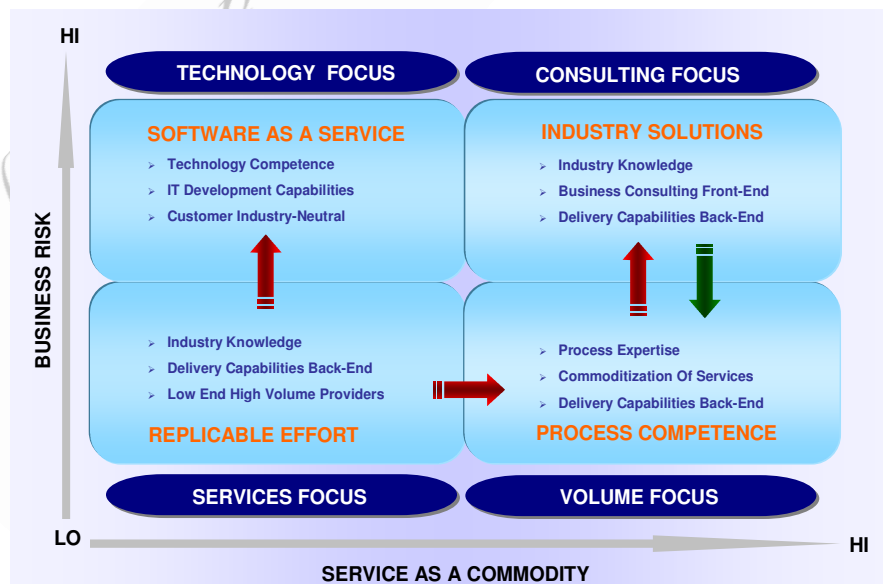
DEVELOP SPECIFIC MEASUREMENT CRITERIA

It is important that each success criteria be measurable, through deployment of appropriate statistical tools or management tools like a Balanced Scorecard. While CMM, CMMi and 6-Sigma standards are equally important at driving quantitative disciplines, in the absence of a tie-in to corporate success criteria, achievements at a deal-level may not enable appropriate diffusion across board. More often than not (as we have seen in outsourcing deals), there is a penchant for measuring performance by deploying a set of discrete service levels.

Unfortunately these service levels are fairly restrictive in their ability to measure performance at the corporate level. So while service levels are met, customer complaints continue to pour in, thereby alarming top management to adopt fire-fighting plans that have no longer-term perspectives other than fixing the problem.

THE MULTISOURCING CHALLENGE SPECTRUM

Multisourcing enables driving companies toward adopting "best-in-breed" providers for a variety of service needs, while continually resting principal focus on internal improvements (driven by vendor competencies garnered through a collective experience across similar engagements). However, there is a variety of challenges companies face during their journey toward implementing a Multisourcing strategy. While many of these challenges are internal, goals of providers (in terms of their own business model) pose challenges that can reduce the benefits of Multisourcing.

The provider landscape is changing globally at a feverish pace. As exemplified in the figure above, it is evident that there seems to be a distinct shift in perspective of providers as to what their business model should evolve into. While perhaps this representation is an over-simplification, it is worthwhile noting that three distinct factors are contributing to this spectral change.

SOFTWARE AS A SERVICE

Most providers who commenced their business through offering replicable low-end services backed by strong delivery capabilities are looking to sustain their business through adoption of new technologies that could then be offered as a service. The demand for this type of provider competencies is increasing primarily owing to the fact that there are many companies globally that continue to work with legacy applications, and these firms are facing increasing pressure from their customers to bring in business flexibility (which has been restricted significantly with rigid internal processes dependant on legacy applications).

It is interesting to see that providers vying for this space are continuing to focus less and less on process competencies, while increasingly looking toward offering technical solutions. This may not augur well for companies looking to source complicated processes and competencies from global providers.

LEVERAGING PROCESS COMPETENCE

Globally, successful providers have been able to scale up the volume chain through continual adoption of process discipline and competencies (backed by stringent certification standards).

Today most providers are able to offer comprehensive services as they have been able to successfully commoditize their services through extensive experience across a broad range of customer engagements. These firms are now looking to scale up their business model value chain through acquiring skills in front-end business consulting, that's focused on specific industries.

The perceived value with such a move is to gain an intrinsic understanding of customer industries, thereby helping providers establish longer-term risk-reward relationships with customer organizations. Some firms have already begun offering such consulting services as a front-end latch-on to their commoditized services, thereby enhancing their ability to win deals.

INDUSTRY CONSULTING CAPABILITIES

Large well-established global providers with intrinsically strong consulting experience are now leveraging their industry knowledge to develop and enhance internal service process competence, as a way towards process commoditization. This move will potentially reduce the current gap seen between industry knowledge and process knowledge.

While Multisourcing is emerging as a trend amongst buyers of services, providers themselves are undergoing a transformation with their business models. This transformation will impact provider capabilities in a manner that can have repercussions with Multisourcing deals that are focused on engaging with the "best-of-breed". As the definition of "best-of-breed" undergoes a dynamic change, so must companies - that are engaged in, or planning to engage in Multisourcing - plan for strategic modifications and realignment of their success criteria.

KEY TO MULTISOURCING: BALANCING

There is no optimization achieved through working with a single provider. Multisourcing therefore represents a more logical pathway to achieving optimization. However maintaining a sustainable balance between provider expectations, and internal goals is critical to the success of Multisourcing initiatives. It is important the customer organizations do not look at Multisourcing as an avenue to pit providers into competition, but more as a longer-term strategic direction to leverage global competencies through engaging the "best-in-breed", while concurrently being flexible with assessment of provider competencies.

Ongoing governance in Multisourcing will become a demanding affair and managements will have to appropriate allocate resources, time and funds with relevant goals. On the other hand, complacence is reduced when there's a clear understanding that the provider is not a sole-supplier.

Transparency with costs, pricing, value and benefits is achieved without ambiguity, thereby helping organizations project the real benefits of global sourcing internally without having to deal with ongoing resistance. In addition, provider performances against ageing or outdated service levels will not dilute actual benefits, as performance and its measurement is across providers and not in isolation with established service levels alone.

Most importantly, effective governance of Multisourcing relationships does result in development of partnerships with providers where risks and rewards are shared. Competence therefore becomes the key driver behind sustenance of such relationships.

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About ea consulting™

ea was founded in 1990 with an office in California and an Offshore Development Centre (ODC), in Malaysia. ea is a strategic IT outsourcing partner to Fortune 500 clients, across corporate and public sectors. SAP, Microsoft, Serenic, IBM and other IT strategic providers have partnered with ea to deliver a complete suite of Enterprise Resource Planning (ERP) solutions and support services. ea has a well-established presence in the U.S with over 16 years of continued success in managing global IT services including implementation, upgrades, support, on-demand and hosting services.

ea engages with corporations looking to leverage offshore outsourcing, by deploying a proven global delivery model that provides a framework for reducing IT cost and time to market. Primary focus of our model is in creating value relationships and effective engagement management such that corporations realize benefits beyond cost arbitrage. Our goal is to help our clients to optimize IT services through continued focus on globalization. Armed with this expertise, ea today provides complete life-cycle enterprise IT services focused on the offshore outsourcing marketplace.

ea has twice been listed on the Inc. 500 as one of the fastest growing companies in the country. Recently, ea has been listed among the World's Top 100 Global most Innovative Service Providers.

About the Author

Bobby Varanasi, a Certified Outsourcing Professional, comes with over 15 years in the global services industry, having served in various positions within Strategy Consulting, Country Market Development, Program & Risk Management, Service Delivery and Customer Relationship Management. He has extensive experience in the services globalization marketplace, having advised Fortune 500 and Global 2000 corporations in the US, UK and Middle East regions. Bobby has also been extensively involved in large-scale engagements involving Strategic Planning, Process Reengineering, Pricing Strategies, Sourcing Relationships, Business & Financial Modeling et al, contributing immensely to global sourcing. Bobby is an acknowledged thought leader, and is a sought-after speaker and conferences' moderator in international conferences, seminars and round-tables. He is currently a Vice President with **ea**, and is responsible for Business Strategy, Corporate Quality and Global Delivery.

In addition, Bobby is the Vice Chairman of Marketing & Branding for **Outsourcing Malaysia** (a not-for-profit government-industry consortium), and a Member of the **Outsourcing Panel** for the Malaysian government's Small & Medium Industries Development Corporation (SMIDEC). He is an active member of the International Association of Outsourcing Professionals (IAOP), and also represents Malaysian outsourcing industry at the renowned Sourcing Interests Group (SIG).

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